

Eric Lawyer
California Secure Choice Retirement Savings Investment Board
915 Capitol Mall, Room 105
Sacramento, CA 95814

October 8, 2018

Dear Mr. Lawyer:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and summary (Form DF-131) for proposed regulations setting up the CalSavers program, as required in California Code of Regulations, title 1, section 2002(a)(1) for major regulations. The proposed text of regulatory amendments dated August 31, 2018 and other publicly available information were also used in the development of these comments.

The proposed regulations would allow around 7 million workers in California at more than 200,000 businesses without an existing retirement savings plan to contribute to individual retirement accounts through payroll contributions. Employees for businesses with fewer than 5 workers would be excluded, along with the more than 500,000 in-home supportive services workers in California. The program sets automatic contributions to a Roth IRA of 5 percent of a worker's wages unless they opt out, with an annual escalation of 1 percentage point per year until the contribution reaches 8 percent a year. The default investment option would be lower risk for the first \$1000, with contributions going to a target-date investment option based on the worker's age after that. The SRIA assumes that 70 percent of eligible workers participate, and that 2.3 million participating workers will contribute \$3.5 billion in 2019, rising to 5.9 million workers contributing over \$15 billion by 2028. This will reduce take-home pay and hence sales taxes by about \$300 million by 2023. However, with administration fees for workers below 1 percent and assumed average investment returns of 5 percent, workers will be able to consume more after retirement.

Finance generally concurs with the methodology used to estimate impacts of proposed regulations. The SRIA is particularly clear in connecting the examples for individuals with the aggregate impacts, and in considering how the program will impact the low-income individuals who are likely to participate. However, the analysis must include a discussion of how administration costs and worker benefits may change if workers make early withdrawals from their accounts during recessions. Although many participants would have access to unemployment insurance after layoffs, many low-income participants would be likely to make early withdrawals. Accounts may have lost value, and withdrawals would prevent them from benefiting from rebounding asset prices and compound returns. Account administrators may also face higher administrative costs that must be recouped in higher fees.

These comments are intended to provide sufficient guidance outlining revisions to the impact assessment if a SRIA is required. The SRIA, a summary of Finance's comments, and any

responses must be included in the rulemaking file that is available for public comment. Finance understands that the proposed regulations may change during the rulemaking process. If any significant changes to the proposed regulations result in economic impacts not discussed in the SRIA, please note that the revised economic impacts must be reflected on the Standard Form 399 for the rulemaking file submittal to the Office of Administrative Law. Please let us know if you have any questions regarding our comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "Irena Asmundson", with a stylized flourish at the end.

Irena Asmundson
Chief Economist

cc: Ms. Panorea Avdis, Director, Governor's Office of Business and Economic Development
Ms. Debra Cornez, Director, Office of Administrative Law
Mr. Steve Juarez, Chair, California Secure Choice Retirement Savings Investment Board
Ms. Katie Selenski, Executive Director, California Secure Choice Retirement Savings Investment Board